

Draft of Address

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To The

Subcommittee on Economic Statistics

Joint Economic Committee

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SOVIET ECONOMIC GROWTH

It is a pleasure to appear before this distinguished Subcommittee and to contribute to its study, "Comparisons of the United States and Soviet Economies."

We have reviewed with much interest the papers which have been submitted to your Subcommittee by the experts from the academic world, government, and research groups. It is an impressive collection. It will, I am sure, help to alert the American people to the international facts of life. Your deliberations have a vital bearing on the response this country must make to the growing challenge of Soviet power.

Since his recent visit to the United States, Khrushchev, the very vocal leader of the Soviet Union, has been preaching the doctrine of peaceful coexistence. Hopes have been raised in the hearts of peoples throughout the world that a genuine relaxation in international tensions may be possible. They profoundly desire meaningful disarmament and an end to the nightmare

threat of nuclear war. We all wish that these hopes are realized. Certainly the vast resources being devoted to military expenditures throughout the world, if diverted, would form a pool of development capital that would promise the end of poverty within a generation.

However, even if the arms race were to be brought to a halt, the competition between communism and free enterprise would not end. The goals of international communism have not changed. The Kremlin leaders firmly believe, and eloquently preach, that communism is the system which will eventually rule the world. The end of the military threat would not mean they had abandoned their over-all objective. Rather, we should expect the battle to be intensified in the economic arena, where the Soviets are already challenging our supremacy.

This, to my mind, is the Soviet meaning of peaceful coexistence. In the words of former Soviet foreign minister Shepilov,

"Peaceful existence does not mean a quiet life.

As long as different social and political systems exist, contradictions between them are inevitable. Peaceful coexistence is a struggle -- a political struggle, an economic struggle, an ideological struggle."

Khrushchev himself seems convinced that the final victory of communism can be won mainly by non-military means. Here the challenge of economic growth is of fundamental importance. For

rapid economic growth is the indispensable core of the Soviet argument that communism is the wave of the future. In Mr. Khrushchev's words to the 21st Party Congress, held in February of this year,

"Development of Soviet economic might will give communism the decisive edge in the international balance of power; it will attract millions of new adherents to our side."

Part of the task of this Subcommittee, as I see it, is to estimate the present size of the Soviet economy, to arrive at a conclusion of its past rates of progress, and finally, to make some judgements about its future growth. It is the future which is most important, for U. S. policy decisions today have a major influence on the shape of tomorrow.

Let us turn first to history. The year 1913 is the base for many Soviet studies and claims. The Soviets try to picture pre-revolutionary Russia as the economic counterpart of Black Africa today. The official myth about the relative backwardness of Imperial Russia has been deliberately created so that communist economic achievements will appear to be even greater than in fact they have been. The Soviet party line would have you believe that Russian industrial output was less than 7 percent of that of the United States in 1913.

Recently the most respected economist in the Soviet Union, Academician Strumilin, published a pamphlet which demolished official

communist claims. He calculated Soviet 1913 output at between 11 and 12 percent of that of the U.S. Having passed his 80th birthday, Strumilin undoubtedly felt that he could write objectively and survive.

The weight of evidence, as I see it, would place pre-revolutionary Russia as the sixth or seventh largest industrial power of its time. While backward by then existing Western European standards of per capita output, Russia was not as underdeveloped as either India or China is today.

Further, Russia had in hand many of the keys for rapid economic development which were, of course, taken over by the Communists. For example, its agricultural output was not only able to provide an adequate diet for its people, but also to generate an export surplus. There was no pressure of population against food resources.

The country was richly endowed with coal, iron ore, and other essential industrial materials. There was a modest but growing machine building industry, and a supply of technical talent.

So much for what existed at the time of takeover. The first major problems that faced the revolutionists were political and military -- to get Russia out of the war with Germany, to bring the internal civil war to a successful conclusion, and to resolve the battle for control within the Communist Party itself which followed the death of Lenin in 1924. By 1928, three important developments had taken place:

First, Stalin had emerged as the absolute victor in the internal power struggle.

Second, the economy had finally been restored to its pre-revolutionary level of output, and

Third, out of the murky dogma of Marxism and Leninism, the surviving Communist leadership had molded a program of economic action which was to serve for the long-run future.

The central theme of the program for economic action, which has remained unchanged, is forced draft industrialization. One of the best descriptions of Soviet economic policy was made by Oscar Lange, formerly a professor of economics at the University of Chicago, who returned to his native Poland after the Communist takeover, and now serves as the principal economic advisor to Gomulka. Mr. Lange said,

"The Soviet economy was planned ... for one single purpose, namely, the most rapid industrialization ... Soviet economic planning did not serve the objectives of a harmonious socialist welfare economy, but served political and military objectives to which all other aspects of economic planning were sacrificed."

In other words, the Soviet economy was and still is, shaped to serve the purposes of the State, not of the people. Having decided on the objective of forced draft industrialization,

the Communist leadership proceeded to implement their decision through the mechanism of detailed plans, rigid allocation of resources, and the use of force where necessary.

In the short space of 30 years, this course of action has brought the Soviet Union forward to second place among the world's industrial powers. There is no dispute on this point among the various experts who have submitted papers to this Subcommittee.

*Industrial*  
Furthermore, in reviewing the various studies of Western scholars, I have been struck by the substantial agreement on the rate of growth achieved by the Soviet Union over the period since 1950. The range of estimates is from 9 to 10.5 percent a year.

The findings of Professor Hutter, in a study sponsored by the National Bureau of Economic Research, appear on the surface to be an exception. This exception, in my opinion, is more apparent than real. First of all, the N.B.E.R. study covers civilian production only, whose annual growth is placed at 7.7 percent.

In the early years of the 1950's, civilian production, and especially civilian machinery production, was significantly affected by the Korean war. The Central Intelligence Agency estimate of civilian production is somewhat higher than the National Bureau's estimate but not a great deal. The <sup>most important</sup> chief difference between the National Bureau's figure of 7.7 percent and my Agency's

10.5 percent is military equipment production.

A very compelling body of evidence, especially in the fields of electronics, aircraft, shipping, and ordnance production, indicates that military equipment production expanded much more rapidly than civilian machinery between 1950 and 1955. Furthermore, the relative weight of military equipment is considerably higher in Soviet industry than in U.S. industry. The addition of military equipment to the National Bureau's index would probably raise it into the range I have indicated. Virtually all Western measurements of output point to this conclusion -- that Soviet industrial production in recent years has been growing about  $2\frac{1}{2}$  times more rapidly than that of the United States.

Turning from industrial production to a more comprehensive measure of economic growth, we find similar parallels between CIA and independent studies of the Soviet economy.

My Agency estimates the growth of Soviet gross national product during the present decade, 1950-1959, to have been at an annual average rate of about 7 percent. Estimates by others for similar time periods range from a low of 6 percent to a high of 8 to 9 percent. The degree of agreement is perhaps even closer than the range of 6 to 9 percent would <sup>imply</sup> ~~infer~~ since these estimates have varying initial and terminal dates within the decade, and the differences are at least in part traceable to this factor. The conclusion, then, is that Soviet GNP has been growing at least twice as rapidly as that of the U.S. over the past nine years.

A third important economic measure, vital to any scrutiny of Soviet economic potential, is that of the growth of agricultural output. CIA estimates that net agricultural production during the period 1952-58 grew at a rate of just over 7 percent per annum. This estimate does not differ materially from the independent study prepared for you by Professor Johnson of the University of Chicago.

The fact that most studies of past Soviet economic growth contain wide areas of agreement has not prevented controversy from developing. Widely divergent views are frequently aired in academic circles, in the press, and even in the halls of Congress. The crucial question, of course, is how to forecast the future.

Some observers have noted that, in the past, the United States experienced long-term rates of growth comparable to the Soviet achievement from 1913 to the present. Such rough statistical equality would be true, for example, if the four decades of U.S. growth ending with our entry into World War I were selected for comparison. Those who would play down and pooh pooh Soviet achievements leap from this statistical springboard to the conclusion that there is nothing unique about Soviet industrial progress. Indeed, they say, we did it ourselves at a "comparable stage of development in United States."

Such glib conclusions omit mention of the uniquely favorable conditions that stimulated our growth prior to World War I. Such factors as the massive immigration of skilled European workers,



the influx of investment funds to make possible our rapid rate of industrialization, and the low level of defense expenditures, which stimulated domestic savings, are all ignored. The point is not only that these factors no longer exist in the United States, but also that they never existed in the Soviet Union.

Let me illustrate the problem of the interpretation of history with another case. The National Bureau estimates Soviet annual industrial growth from 1913 to 1955 at 3.9 percent. But how relevant is the inclusion of the years up to 1928? These years were marked by wars, internal and external, by political upheaval, mass imprisonment and chaos. Soviet steel production in 1913 was a little over four million tons; by 1928 it was still just a little over four million tons. If the first 15 years are eliminated, and growth is measured from 1928 through 1958, the conclusion is inescapable that Soviet economy has surged forward very rapidly indeed, and far faster than its American competitor.

In my own Agency, we have not attempted to distill a "best estimate" of future Soviet prospects for economic growth out of the vagaries of 30 or 45 years of Soviet history.

We have instead asked ourselves two questions:

First, what do the Soviet leaders intend to do, and

Secondly, what are the prospects for the achievement of their goals?

With respect to economic intentions, the Soviet leaders have left no room for doubt. The obsession with overtaking the U.S. economy in the shortest possible historical time was the dominant theme of the 21st Party Congress. Mr. Khrushchev's words,

"The Soviet Union intends to outstrip the United States economically ... To surpass the level of production in the United States means to exceed the highest indexes of capitalism."

Visitors to the Soviet Union report the slogan, "Even America must be surpassed," painted on every cow barn.

The USSR is now in the opening stages of the seven year plan, which blueprints industrial developments through 1965. This plan, which can be thought of as the Soviet economic order of battle, establishes the formidable task of increasing industrial output by 80 percent. The achievement of this goal will narrow the present gap between Soviet and United States industrial output. This would be particularly true in the basic raw materials and producers goods fields. Can the Soviets meet their 1965 industrial targets?

In my judgement, these goals will be met, with unimportant exceptions. This estimate does not rest on any highly involved reasoning.

Past Soviet economic growth has rested largely on the plowing back of every possible ruble into heavy industry, into the means of

production. To use a simple example, it is the use of steel to make steel capacity greater, rather than to use it up by manufacturing automobiles.

The magnitude of the investment program in the seven year plan, the plan that runs through 1965, is impressive by any standards of comparison. Capital investment in Soviet industry for the year 1959, the initial year of the plan, when measured in dollars, will be approximately equal to industrial investment in the United States. The Soviets plan proportionately larger investment outlays for the succeeding years through 1965. These absolute amounts of investment are being fed into an industrial system whose output in 1958 was only about 40 percent of the United States. Under such forced draft feeding, the Soviet industrial plant cannot fail to grow at a rapid rate.

On the other hand, we see no prospect that the agricultural goals of the seven year plan will be approached. Unless the leadership drastically raises the input of resources through new programs, we do not see much prospect for more than an 18 to 20 percent increase in agricultural output by 1965. This estimate is in contrast to the indicated Soviet goal of a 55 to 60 percent boost over the same time period.

Primarily because of the slower growth of agriculture, we project a moderate slowdown in total Soviet output, or gross national product, over the next seven years, compared to the past seven years.

We estimate GNP growth at 6 percent a year through 1965. If the United States gross national product for the years 1957 through 1965 can be projected at an annual growth rate of from 3.5 to 4 percent, then Soviet GNP will be slightly more than 50 percent of ours by 1965. <

To summarize, the USSR will probably achieve significant gains by 1965 in its self-appointed task of catching up with the United States, particularly in industrial production.

At the same time, it is important not to exaggerate Soviet prospects in the economic race. In the propaganda surrounding the launching of the Seven Year Plan, Khrushchev made a number of statements about Soviet economic power which were nothing more than wishful thinking. Specifically he stated that, "after the completion of the Seven Year Plan, we will probably need about five more years to catch up with the outstrip the United States in industrial output." "Thus," he added, "by that time (1970), or perhaps even sooner, the Soviet Union will advance to first place in the world both in absolute volume of production and in per capita production."

First of all, to reach such improbable conclusions, the Kremlin leaders overstate the present comparative position. They claim USSR industrial output to be 50 percent of that of the U.S. Our own analyses of Soviet industrial output last year concluded that it was about 40 percent of our own.

Secondly, Khrushchev forecasts that our future industrial growth will be only two percent a year. If this is true, the United States will be virtually committing economic suicide. This prediction I regard as unrealistic.

A saner projection would place 1965 Soviet industrial production at about 55 percent of our own. By 1970, assuming the same relative rates of growth, USSR industrial output, as a whole, would be about 60 percent of that in the United States.

Further, when Khrushchev promises his people the world's highest standard of living by 1970, this is patently nonsense. It is as though the shrimp had learned to whistle, to use one of his colorful comments.

Although the Soviets in recent years have been continually upping the production of consumer goods, their consuming public fares badly in comparison with ours. Last year, for example, Soviet citizens had available for purchase barely one-third the total goods and services available to Americans. Indeed, per capita living standards in the Soviet Union today cannot be more than one-fourth those being enjoyed by our own people.

The Soviet government last month announced, with its usual great fanfare, a program for increasing the production of certain durable consumer goods. The decree included refrigerators, sewing machines, vacuum cleaners, etc., but not automobiles.

Actually, the new program covers only about five percent of Soviet industrial production, and even in this narrow area raises goals but modestly above previous plans. The decree is one of a

series introduced to provide a trickle of benefits to the consumer at relatively small cost to the state. Soviet industrial investment and military programs will not be affected adversely.

I turn now to another economic area where the world has been frequently treated to gross exaggerations by Khrushchev. He stated in February, and has repeated many times, that,

"(The socialist camp) now accounts for over one-third of the world's industrial output. According to estimates by economists, as a result of the development of the national economy of the Soviet Union ... and of the people's democracies ... the countries of the world socialist system will produce over half of the total world industrial output (by 1965)."

Actually, total industrial production of the "socialist camp," including that of the European Satellites and Red China in with the Soviet Union is only about 25 percent of total world output. By 1965, it will be a few percentage points higher; Free World production will still account for over 70 percent of the total. Accepting any reasonable margin of error in these estimates, Khrushchev's claim that the Communist Bloc's share of total world industrial production will increase one-half in 1965 can hardly be excused, even as wishful thinking. It is a view of the future through red colored glasses.

As I see it then, the communists are not about to inherit the world economically. But while we debunk the distortions of their propaganda, we must not blind ourselves to the sobering implications of Soviet economic progress.

Their economy is forging ahead rapidly, ours is not. Their people are making very great sacrifices to achieve economic and military supremacy, ours are far more complacent. I am confident that we have the time and the ability to prove the superiority of our own economic system for all to see. Do we have the will to do so?